

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4701-01
Bill No.: SB 1280
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: March 3, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$269,504,540	\$197,259,800	\$101,559,800
Total Estimated Net Effect on General Revenue Fund*	\$269,504,540	\$197,259,800	\$101,559,800

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Highway Funds	\$17,400,000	\$12,600,000	\$6,500,000
Total Estimated Net Effect on <u>All</u> State Funds*	\$17,400,000	\$12,600,000	\$6,500,000

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Department of Revenue (DOR) officials state this legislation will provide an increase in revenues over the course of three years, with intent to slowly phase it out during that time. This language states that in the third year the rate will be reduced from 4 1/4% to 4 1/8% but does not specify that at the beginning of the fourth year, the tax rate will be returned to the original rate of 4%.

The emergency clause states that it will become effective on the first month after the special election. The language needs to be changed to make it effective the first day of the first calendar quarter after the special election in order to provide sufficient notice to the taxpayers.

Business Tax will be responsible for notifying the 150,000 sales tax businesses every time the tax rate is changed (over the 3 year duration). The three tax rate changes (four, if the rate is to be changed back to 4% after the third year) will also require programming to send notifications to the public. This will require 173 hours of programming per year/rate change at a cost of \$5,771 (also, per year).

Oversight reduced the amount requested by DOR for postage to \$40,200 annually to reflect the cost at the current bulk rate. Since DOR did not request programming changes in their prior responses to similar bills, **Oversight** assumes DOR can complete any necessary changes with existing resources.

ASSUMPTION (continued)

Officials from the **Office of Administration, Budget and Planning (BAP)** assume this proposal would increase the sales tax by:

- 1/2 cent for one year after implementation
- 1/4 cent for the subsequent year
- 1/8 cent for the subsequent year

Further, BAP assumes the proposal becomes effective Sep. 1, 2004, and is effective for 10 months in FY05, all of FY06 and FY07, and 2 months of FY08.

The regular sales tax base for FY05 is \$1,844.5 million. This is based on the consensus revenue estimate. BAP assumes the base will grow 3% in each succeeding fiscal year.

The GR motor vehicle sales tax base for FY05 is \$125.5 million. A like amount goes to the highway fund. This is based on the consensus revenue estimate. BAP assumes the base will grow 3% in each succeeding fiscal year.

Based on these assumptions, this proposal has the following impacts, in millions of dollars:

(millions of dollars)	FY 2005	FY 2006	FY 2007	FY 2008
Regular Sales Tax	\$256.2	\$184.7	\$95.1	\$14.0
MV Sales Tax – General Revenue	\$17.4	\$12.6	\$6.5	\$1.0
MV Sales Tax – Highways	\$17.4	\$12.6	\$6.5	\$1.0

Officials from the **Secretary of State (SOS)** assume statewide newspaper publication of constitutional amendments cost approximately \$1,228 per column inch based on estimate provided by the Missouri Press Service x 3 for multiple printings as required by the Constitution and state statute = \$3,684 per column inch. SOS estimates the total number of inches for this amendment to be 15 inches, which includes title header and certification paragraph. \$3,684 x 15 inches = \$55,260.

In response to a similar proposal, officials from the **Office of Administration** assumed the election costs for a special election would be approximately \$4 million.

ASSUMPTION (continued)

Since this legislation is subject to voter referendum, **Oversight** assumes this proposal would have no state fiscal impact without voter approval. **Oversight** assumes the proposal would be on the ballot for the first Tuesday in August 2004.

This proposal would result in an increase in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
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GENERAL REVENUE FUND

Income - General Revenue

Increase in sales tax	\$256,200,000	\$184,700,000	\$95,100,000
Increase in MV sales tax	<u>\$17,400,000</u>	<u>\$12,600,000</u>	<u>\$6,500,000</u>
Total Income - GR	\$273,600,000	\$197,300,000	\$101,600,000

Cost - Dept. of Revenue

Postage	(\$40,200)	(\$40,200)	(\$40,200)
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Cost - Secretary of State

Publication costs	(\$55,260)	\$0	\$0
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Cost - Office of Administration

Special election costs	<u>(\$4,000,000)</u>	<u>\$0</u>	<u>\$0</u>
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**TOTAL ESTIMATED NET EFFECT
 ON GENERAL REVENUE FUND***

	<u>\$269,504,540</u>	<u>\$197,259,800</u>	<u>\$101,559,800</u>
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* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
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HIGHWAY FUNDS

<u>Income - Highway Funds</u>			
Increase in MV sales tax	<u>\$17,400,000</u>	<u>\$12,600,000</u>	<u>\$6,500,000</u>

TOTAL ESTIMATED NET EFFECT ON HIGHWAY FUNDS*	<u>\$17,400,000</u>	<u>\$12,600,000</u>	<u>\$6,500,000</u>
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* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses would be expected to collect/pay the increased sales tax as a result of this proposal.

DESCRIPTION

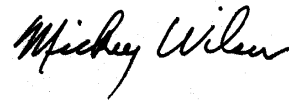
This proposal increases the sales tax by 1/2% for one year, then lowers the increase to 1/4% for one year, then lowers the increase to 1/8% for one year, and finally returns the sales tax rate to the current levy.

The proposal has a referendum clause for August 2004, and an effective date of October 1, 2004, if approved by the voters.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Budget and Planning
Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 3, 2004